

CARVER PENSION SCHEME

CHAIR'S STATEMENT YEAR ENDED 5 APRIL 2020

Defined Contribution Governance Statement

The Trustees are required to prepare an annual statement regarding governance of Defined Contribution ('DC') funds within the Scheme, which needs to be included in the annual report.

The Scheme holds DC funds built up by members before 1997. These funds have a Defined Benefit underpin which may or may not come into payment when members take benefits. The Trustees are required to publish this statement, although we estimate the Defined Benefit underpin will be triggered for approximately 95% of members. This statement also covers the additional voluntary contributions ('AVCs') members have paid which are invested with Standard Life.

This statement covers the period from 1 April 2019 to 31 March 2020 and describes how the Trustees of the Scheme have met the statutory governance standards in relation to:

- Processing of core financial transactions,
- Charges and transaction costs paid by members and illustrations of the cumulative effects of costs and charges on members' funds,
- Value for Members assessment, and
- Trustee knowledge and understanding.

The Regulations also require trustees to set out the governance processes in relation to the default investment strategy for their scheme. Our Scheme is not used as a Qualifying Scheme for auto-enrolment purposes and no contributions have been paid to the Scheme since the relevant Regulations came into force. The Scheme therefore has no default investment strategy, as defined by the Regulations, and so the governance requirements in relation to the default investment strategy do not apply to the Scheme and are not covered in this statement.

1. Processing of Core Financial Transactions

The Trustees have a specific duty to ensure that core financial transactions are processed promptly and accurately.

The Trustees have a service level agreement in place with the Scheme Administrator, Aon, which covers core financial transactions including:

- Transferring assets relating to members out of the Scheme,
- Transferring assets relating to members between different investments within the Scheme, and
- Making payments from the Scheme to or on behalf of members.

Aon has confirmed that there are processes in place for each core financial transaction listed above to ensure that these transactions are processed in a timely manner and accurately. These processes include Aon reconciling the Trustee bank account and the DC fund unit holdings on a monthly basis.

Aon reports performance against the service level agreement to the Trustees twice a year and the Trustees consider these reports at each trustee meeting. Aon's reports also cover any formal member complaints and member feedback received.

Aon has prioritised core financial transactions during the COVID-19 pandemic. During the period 1 January 2019 to 30 June 2020, performance against the service level agreement for all core financial transactions was 100%.

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Defined Contribution Governance Statement (continued)

1. Processing of Core Financial Transactions

Based upon the above, the Trustees are satisfied that over the period covered by this statement:

- the Scheme Administrator was operating appropriate procedures, checks and controls and operating within the agreed service level agreement;
- there have been no material administration errors in relation to processing core financial transactions; and
- all core financial transactions have been processed promptly and accurately during the Scheme year.

2. Charges and transaction costs paid by members

The Trustees are expected to explain:

- (i) the explicit charges paid by members. The Total Expense Ratio ('TER') is the total of the explicit charges each year expressed as a percentage of the fund value, it includes the Annual Management Charge and any other expenses such as fees paid to the trustee (or depositary), custodian, auditors and registrar and therefore provides a clear picture of the total annual costs of running the fund.
- (ii) transaction costs (i.e. the costs of buying and selling investments in a fund) which are paid by members.

The charges (TER) and transaction costs for the DC and AVC funds held by members for the period 1 April 2019 to 31 March 2020 are shown in the table below. These have been supplied by the providers, Legal & General ('L&G'), Aberdeen Standard Life ('ASL') and Standard Life Assurance Limited ('Standard Life'). Where transaction costs have been provided as a negative cost (i.e. a gain to the fund), as can happen in some circumstances, these have been set to zero by the Trustees.

Fund	TER (%)	Transaction Costs (%)
Lifestyle strategy	0.1437 to 0.706 ¹	0.0009 to 0.0415 ¹
ASL Global Absolute Return Strategies Fund	0.706	0.0041
Legal & General Global Equity 50:50 Index	0.165	0.0118
Legal & General UK Equity Index	0.1	0.0415
Legal & General Overseas Equity Fund ²	0.45	0.05
Legal & General Pre-Retirement Fund	0.15	0.00
Legal & General Cash Fund	0.125	0.0034
Standard Life Managed Pension Fund (AVCs)	1.03	0.1109

¹Depending upon term to retirement

²The Overseas Equity Fund is currently invested entirely in the Legal & General Global Emerging Markets Equity Index Fund.

3. Illustrations to show the cumulative effect of costs and charges

The Trustees are required to illustrate the effect of costs and charges typically paid by a member on their DC fund (as a "pounds and pence figure"). The Regulations allow the Trustees to exercise their discretion with regards to the examples provided to show the effect of costs and charges over time, as long as they are realistic and representative of the Scheme's membership.

In order to help members understand the impact that costs and charges can have on their retirement savings, the Trustees have provided illustrations of their cumulative effect on the value of typical Scheme members' DC savings over the period to their retirement.

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Defined Contribution Governance Statement (continued)

3. Illustrations to show the cumulative effect of costs and charges (continued)

The illustrations have been prepared having regard to statutory guidance, selecting suitable representative members, and are based on a number of assumptions about the future which are set out under 'notes and assumptions' below. Members should be aware that such assumptions may or may not hold true, so the illustrations do not promise what could happen in the future and fund values are not guaranteed. Furthermore, because the illustrations are based on typical members of the Scheme they are not a substitute for the individual and personalised illustrations which are provided to members in their Annual Benefit Statements.

We have decided to show illustrations for two example members with DC funds.

- Example member 1: a member with DC funds who is 48 and therefore has 17 years until they reach normal retirement age (65) with a current fund value of £2,000;
- Example member 2: an 'average' member with DC funds who is 57 and therefore has 8 years until they reach normal retirement age (65) with a current fund value of £55,000.

To show the impact of different levels of charges and expected investment returns, we have provided illustrations for the Lifestyle Strategy, the ASI Global Absolute Return Strategies Fund (representing a fund with higher charges and moderate expected returns) and the Legal & General Cash Fund (representing a fund with lower charges and lower expected returns).

The projected impact of charges on estimated fund values ('EFV') is shown in the tables below:

Example member 1:

At Age:	Lifestyle strategy			ASI Global Absolute Return Strategies Fund			Legal & General Cash Fund		
	EFV (before charges)	EFV (after charges)	Effect of charges	EFV (before charges)	EFV (after charges)	Effect of charges	EFV (before charges)	EFV (after charges)	Effect of charges
50	£2,180	£2,170	£10	£2,040	£2,010	£30	£1,920	£1,920	£0
55	£2,510	£2,440	£70	£2,140	£2,040	£100	£1,740	£1,730	£10
60	£2,610	£2,450	£160	£2,250	£2,070	£180	£1,580	£1,560	£20
65	£2,460	£2,280	£180	£2,360	£2,100	£260	£1,430	£1,400	£30

Example member 2:

At Age	Lifestyle strategy			ASI Global Absolute Return Strategies Fund			Legal & General Cash Fund		
	EFV (before charges)	EFV (after charges)	Effect of charges	EFV (before charges)	EFV (after charges)	Effect of charges	EFV (before charges)	EFV (after charges)	Effect of charges
60	£55,900	£54,890	£1,010	£56,630	£55,470	£1,160	£51,840	£51,650	£190
65	£52,730	£51,020	£1,710	£59,440	£56,260	£3,180	£46,980	£46,510	£470

Notes and assumptions

- Fund values shown are estimates and are not guaranteed
- Illustrations assume no further contributions are paid

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Defined Contribution Governance Statement (continued)

3. Illustrations to show the cumulative effect of costs and charges (continued)

- Projected fund values are shown in today's terms, and do not need to be reduced further for the effect of future inflation
- Inflation is assumed to be 2.5% p.a.
- The starting fund values used in the projections are representative of the average for the Scheme's DC members
- Transaction costs have been averaged over a 2-year period in line with statutory guidance to reduce the level of volatility
- A floor of 0% p.a. has been used for the transaction costs if these were negative in any year so as not to potentially understate the effect of charges on fund values over time
- The projected growth rates used have been provided by our advisers and are consistent with the growth rates used for Annual Benefit Statements
- The growth rates and total charges (i.e. the TER plus transaction costs) used for the illustrations are shown in the table below:

Fund	Total charges (% p.a.)	Expected growth rate (% p.a.)
Lifestyle strategy	0.13% to 0.71% ¹	Between 4.5% p.a. above inflation and 1.96% p.a. below inflation ¹
ASI Global Absolute Return Strategies Fund	0.710%	1.0% p.a. above inflation
Cash Fund	0.127%	2.4% p.a. below inflation

¹For the lifestyle strategy, the projection takes into account the changing proportion invested in the different underlying funds over time.

Only one member of the Scheme holds AVCs. We have not included an illustration to show the impact of costs and charges on AVC funds, since this members' Annual Benefit Statement will provide a better indication of this.

4. Value for members

The Administration Regulations require the Trustees to make an assessment of charges and transaction costs borne by members and the extent to which those charges and costs represent good value for members. There is no legal definition of "good value" and so the process of determining good value for members is a subjective one.

In order to assess whether our members receive good value from the Scheme relative to the costs and charges they pay, we have considered:

- the costs and charges borne by members (identified as the TER and transaction costs set out in section 2 of this statement) and
- the benefits of membership.

Members pay only the investment charges on their DC funds, all other costs are met by the sponsoring employer. Although up to date cost benchmarking data is limited for schemes not used for auto-enrolment, in our adviser's experience, the charges paid by members from their DC funds are competitive compared to other similar schemes. There is no market benchmarking data available for transaction costs and they are volatile from one year to the next depending on the extent of trades within funds, however, our adviser's high-level assessment of the transaction costs incurred by members over the Scheme year indicates that these appear reasonable.

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Defined Contribution Governance Statement (continued)

4. Value for members (continued)

The Trustees have considered the services and benefits provided to members with DC funds such as the reporting and monitoring in place for these funds, the investment options available, the efficiency of administration, and the retirement benefits provided by the DC funds. The Trustees concluded that, whilst members receive very little in the way of communications or support services, the Scheme is well-administered, has an appropriate governance framework in place, offers a range of good quality investment options to members and members will receive a potentially valuable benefit if the Defined Benefit underpin is triggered when they take benefits.

Based upon the above, the Trustees concluded the DC Section does provide value for members.

Members can use their AVC funds to provide their entitlement to tax free cash from the Scheme, rather than commuting defined benefit pension for tax free cash and the Trustees believe this option provides value for those members who have chosen to pay AVCs.

5. Trustee Knowledge and Understanding

Sections 247 and 248 of the Pensions Act 2004 require the Trustees to have sufficient knowledge and understanding to properly exercise their functions as Trustees and to run the Scheme effectively.

The comments in this section relate to the Trustee Board as a body in dealing with the whole Scheme and are not restricted to the DC Section of the Scheme.

The Scheme's Trustee Board was comprised of three Trustees during the period covered by this Statement. No new Trustees were appointed over the period.

I have been involved as a Trustee of the Scheme since becoming Group Finance Director in 2015. My professional experience provides expertise in financial management to the Trustee Board, as does that of my fellow Trustee who is also a Finance Director. Our third Trustee is a long-serving Trustee, having been appointed in 2012 and therefore has good knowledge of the Scheme and its governing documentation. He is also a Managing Director within the Group, so his professional qualifications and experience in company management bring relevant skills to the Trustee Board.

The Trustees' consultancy and administration services have been provided by Aon since the 1980s, with the current Scheme Actuary having been in place since circa 2000. Our advisers and administrators therefore have an in-depth knowledge of the Scheme and its history.

All key Scheme documents and meeting papers are readily available to the Trustees via a secure website, Aon Pensions Organiser, which provides a facility for the Trustees to view and maintain a working knowledge of the Scheme's Trust Deed & Rules and other documents setting out the Scheme's policies and practices.

Aon discusses forthcoming areas of focus and what specific knowledge and understanding requirements may be with the Trustees. We hold two trustee meetings a year and the Trustees' professional advisers attend each trustee meeting and provide updates on relevant legislative changes as well as specialist advice and training to support the Trustees' decision-making at each point in time.

During the period covered by this Statement, we have:

- Received advice and training on GMP equalisation.
- Received advice and training on responsible investment and reviewed and updated the Scheme's Statement of Investment Principles to take account of the new Investment Regulations.
- Received advice on the Competition and Markets Authority (CMA) review, including setting Investment Consultant objectives.
- Received updated actuarial valuation training, including training on the latest guidance from the Pensions Regulator.

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Defined Contribution Governance Statement (continued)

5. Trustee Knowledge and Understanding (continued)

- Made decisions on specific member cases, taking into account the requirements of the Scheme's Trust Deed & Rules and also the wider law relating to pensions and trusts.
- Carried out regular annual tasks, such as reviewing and signing off the Trustee Report & Accounts.
- Regularly monitored investment performance of the Scheme's assets and the funding position of the Defined Benefit Section of the Scheme.
- Received regular updates on topical issues in pensions and developments in pensions legislation/regulations which helped us to maintain a knowledge of the law relating to pensions and trusts.

As a result of the professional background of the Trustees, the training activities we undertake as part of our role as Trustees, and taking into account the professional advice available to us, I am confident that the Trustee Board meets the Pension Regulator's TKU requirements (as set out under Code of Practice No 7) and that the combined knowledge and understanding of the Trustees enables us to exercise our functions properly. I also believe that this has been demonstrated and evidenced by the meetings and correspondence throughout the year, where training and advice has been provided, discussions held and decisions taken in relation to any matters material to the running of the Scheme.

Signed on behalf of the Trustees of The Carver Pension Scheme

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Chair of Trustees